

# Congress of the United States

## Washington, DC 20510

January 10, 2024

The Honorable Mike Johnson  
Speaker of the House  
United States House of Representatives  
Washington, DC 20515

The Honorable Hakeem Jeffries  
Minority Leader  
United States House of Representatives  
Washington, DC 20515

The Honorable Jason Smith  
Chair  
Committee on Ways and Means  
United States House of Representatives  
Washington, DC 20515

The Honorable Richard Neal  
Ranking Member  
Committee on Ways and Means  
United States House of Representatives  
Washington, DC 20515

Dear Speaker Johnson, Leader Jeffries, Chair Smith, and Ranking Member Neal:

We write to urge you to restore our nation's businesses' ability to secure full deduction of their research and development (R&D) expenses each year.

Before the passage of the Tax Cuts and Jobs Act of 2017, businesses could deduct R&D expenses within the same year they incurred these costs. This policy incentivized American advancement and innovation and provided stability for businesses undertaking potentially risky ventures. However, the Tax Cuts and Jobs Act of 2017 amended Internal Revenue Code Section 174 to require R&D expenses to be amortized over five years rather than within the same tax year. These changes, which took effect in the 2022 tax year and began impacting taxpayers in the 2023 tax year, have resulted in dramatic tax increases for small businesses on the forefront of innovation. Even some businesses that did not make a profit in 2022 are considered profitable under this new tax structure and thus are on the hook for significant tax bills.<sup>1</sup>

All kinds of small businesses, from breweries to manufacturers to farms, are innovators in their industries and incur R&D expenses. According to the Small Business Administration, businesses with between 10 and 499 employees invested \$71 billion in R&D development in 2019. Small businesses employ over 500,000 workers focused on R&D and spend a disproportionate amount of their sales on innovation efforts compared to larger businesses.<sup>2</sup> Unfortunately, these small- and medium-sized firms have been the hardest hit by the change. An engineering business in New Hampshire has seen its tax liability more than double. A Midwest dairy farm, a Missouri steel fabrication company with 120 employees, and a small manufacturing business in Minnesota have all experienced tax hikes in the hundreds of thousands of dollars.<sup>3</sup>

While we strive to support our manufacturing and technology sectors through federal investments like the CHIPS and Science Act and the Inflation Reduction Act, we are currently dulling the potentially transformative effects of these laws by preventing businesses from taking full advantage of R&D

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<sup>1</sup> <https://www.wsj.com/articles/small-businesses-face-big-tax-bills-from-research-deduction-change-a189b113>

<sup>2</sup> <https://advocacy.sba.gov/2022/09/21/small-business-facts-small-business-contributions-to-research-and-development/>

<sup>3</sup> <https://www.forbes.com/sites/deanzerbe/2023/04/24/rd-tax-credit---an-update-on-a-lifeline-for-small-and-medium-business/?sh=32b67ba344f7>

incentives. The U.S. is also an outlier in the global community as one of only a few peer countries that does not allow for expensing of R&D<sup>4</sup>; in contrast, China allows for 200% deduction of these expenses.<sup>5</sup>

Innovation is critical to building a competitive economy that works for everyone. It lowers costs for consumers, increases worker productivity, and encourages businesses to grow. Small businesses should not be penalized by the federal government for investing in critical research and innovation. Discouraging the risk taking needed for innovation will have negative impacts on entrepreneurial startups and small businesses. This change contradicts 70 years of prior law in which all R&D expenditures could be immediately expensed in the year accrued. A return to the prior policy would significantly reduce the tax burden small businesses face and incentivize entrepreneurial risk-taking and innovation that is vital to growing our economy and ensuring we continue to outcompete the world. It's crucial that we restore certainty to our small businesses as soon as possible.

That's why we support H.R. 2673, the bipartisan American Innovation and R&D Competitiveness Act. This legislation would eliminate the five-year amortization requirement for research and experimental expenditures, allowing the expenditures to be expensed in the taxable years they were incurred. We urge you to ensure this legislation is brought to the floor prior to this year's tax season to provide small businesses with as much certainty as possible.

Thank you for your attention to this urgent matter. We look forward to your prompt response.

Sincerely,



Chris Pappas  
Member of Congress



Aaron Bean  
Member of Congress

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<sup>4</sup> <https://taxfoundation.org/research/all/eu/rd-tax-credit-rd-tax-subsidies-oecd/>

<sup>5</sup> <https://bipartisanpolicy.org/blog/research-and-development-expensing-impacts-of-recent-changes-on-energy-innovation/>